聯合評級國際
Lianhe Ratings Global

Press Release
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Lianhe Global has assigned 'BB+' global scale Long-term Issuer and Issuance Credit Ratings to Jinke Property Group Co., Ltd. and its proposed USD notes; Issuer Rating Outlook is Stable

HONG KONG, 20 May 2021 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BB+' global scale Long-term Issuer Credit Rating to Jinke Property Group Co., Ltd. (000656.SZ) ("Jinke" or "the company"). The Outlook is Stable.

At the same time, Lianhe Global has assigned 'BB+' global scale Long-term Issuance Credit Rating to the proposed senior unsecured USD notes ("the USD notes") to be issued by Jinke.

Jinke intends to use the net proceeds from this offering for refinancing its existing indebtedness.

Key Rating Rationales

The USD notes are rated at the same level as Jinke's global scale Long-term Issuer Credit Rating of 'BB+' as they constitute Jinke's senior and unsecured obligations. Jinke's obligations for the USD notes shall rank pari passu with all its other present and future unsecured, unsubordinated obligations.

The Issuer Rating reflects Jinke's established market position in the Chongqing market and evident land bank diversification into eastern China, as well as into southern, central and southwestern China. Jinke has been able to contain its financial leverage while achieving its contracted sales and revenue growth. However, Jinke's rating is constrained by the execution risk in changing of its business model into an operating efficiency focus, and the continuous stagnant margin growth resulting from the nominal average selling price growth and rising land cost.

The Stable Outlook reflects our expectation that Jinke would defense its established market position, continue to focus on improving its operating efficiency while maintaining steady contracted sales and revenue growth and margins, and diversify its product offerings and land bank with a prudent manner in controlling financial leverage.

Sizable and Gradually Diversifying Land Bank Supports Strong Contracted Sales Growth: Jinke had a sizable and diversified land bank portfolio with a total saleable GFA of c. 71.1 million sq.m across 118 cities in China at end-2020. The company has over 20 years of property development experience and has deep penetration and brand awareness in eastern China and Chongqing, while selectively entering into the other strategic cities in southern, central and southwestern China.

Jinke's saleable land bank is primarily located in tier 2 and 3 cities, which accounted for close to 80% of its saleable land bank at end-2020. Chongqing accounted for c. 25% of Jinke's saleable land bank at end-2020, decreasing from c. 29% at end-2019 and c. 40% at end-2018. We believe the company is moving well towards the direction of reducing concentration risk, although the expansion comes with execution risks. The diversification enables Jinke to shelter away from regional market and policy risks which further enables the company to focus on enhancing its operating efficiency.

Jinke's total contracted sales reached RMB217.8 billion in 2020, representing a year-on-year increase of c. 20% and placing the company at 16th among Chinese property developers. Eastern China and Chongqing accounted for 41% and 19% of its total contracted sales for 2020, compared with 28% and 30%, respectively in 2019. Jinke was able to achieve a double-digit growth of its contracted sales in 2020, despite the impact of COVID-19. We expect the company to achieve RMB230-250 billion of total contracted sales in the next 12 to 18 months.

Jinke's average gross margin was c. 25% in 2018 to 2020. Jinke normally commences pre-sales in approximately five to seven months from land acquisition, with the development cycle to delivery of approximately two years. As such, we believe the company can maintain a steady revenue growth in the next 12-18 months, on the back of its strong contracted sales growth in the previous two years. At end-2020, Jinke had c. RMB136 billion of contract liabilities, which carry a gross margin in 20%-25% area and will be booked in the next one to two years. As the company focused on open market auctions for its land acquisitions in the past two years, we expect Jinke's property development segment gross margins to be constrained in the low-20% area in the next 12 to 18 months.

Moderate and Improving Leverage with Managed Land Acquisition Strategy: Jinke spent c. 59%, 48% and 40% of its total contracted sales on land acquisitions in 2018, 2019 and 2020, respectively. We believe Jinke is turning its focus away from a fast-churn aggressive expansion model to an operating efficiency and product offerings enhancement model. The company targets to gradually reduce its reliance on open market auctions and increase the proportion of land bank acquisitions from the other sources such as mergers & acquisitions, industrial real estates and urban renewal projects in the next 12-18 months, although its track record of diversification is yet to be demonstrated.

Jinke's saleable land bank on hand at-end 2020 was sufficient to support the company's contracted sales for approximately the next three years. We expect Jinke to continue to replenish its land bank in a measured manner. We expect the company to utilize c. 35-40% of its total contracted sales for land acquisitions in the next 12-18 months.

Jinke's reported debt decreased from RMB98.8 billion at end-2019 and RMB97.7 billion at end-2020, while its adjusted debt increased from RMB112.4 billion to RMB119.0 billion in the same period. The moderate increase of c. 6% in adjusted debt showed Jinke's deleveraging effort with a focus on managed expansion. Total debt/capitalization decreased from 68.3% at end-2019 to 61.8% at end-2020.

Jinke's total cash collection rate increased further from 87% in 2019 to 90% in 2020. We expect the company to maintain a cash collection rate of close to 90% and a consolidation ratio of c. 65% in the next 12-18 months. The company also generated RMB14.5 billion of net operating cash flow in 2020. As Jinke continues to maintain a healthy operating cash flow and deleveraging effort, we expect the company's total debt/capitalization ratio to maintain at c. 60-63% level in the next 12 to 18 months.

Wide Access to Onshore Financing Channels Despite Exposure to Alternative Financing; Decent Liquidity Profile: Jinke has wide access to various financing channels in the onshore markets, such as bank facilities and bond issuance. The company also has good relationship with onshore lending banks. At end-2020, Jinke had c. RMB52 billion onshore bank loans and RMB16 billion onshore bonds outstanding, representing c. 69% of total reported debt portfolio. Its exposure to non-traditional banking products, which typical carry higher funding cost and shorter tenor, increased at end-2020 as compared with end-2019. The increase in funding from non-traditional banking products will subject the company to heightened funding cost and lesser financial flexibility in the next 12-18 months.

Jinke's liquidity is good with cash on hand of RMB43.5 billion at end-2020 to cover its RMB32.5 billion of debt due within one year. The company also had RMB145.8 billion of approved but unutilized bank line at end-2020. We expect Jinke's strong cash position and operating cash flow generation to be able to cover its short-term debt and committed land premium due in the next 12 months. Jinke has also tried to diversify its funding sources with an issue of its debut commercial mortgage-backed securities (CMBS) in April 2021.

Rating Sensitivities

We would consider downgrading Jinke's rating if it were to (1) aggressively expand and replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 70% or a decrease in its EBITDA interest coverage to below 2.0x consistently, and/or (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Jinke's rating if it were to (1) considerably increase its operating scale while maintaining competitive position in its core markets, and (2) maintain its financial leverage as measured by debt/capitalization at below 50% or EBITDA interest coverage at above 4.0x consistently.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this Jinke's rating is Lianhe Global's General Corporate Rating Criteria published on 16 July 2018, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer Credit Rating is solicited at the request of the rated entity or a related third party.

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